New Issue: Round Rock (City of) TX

MOODY'S UPGRADES TO Aa2 FROM Aa3 THE RATING OF THE CITY OF ROUND ROCK [TX]

RATING UPGRADE AFFECTS $152 MILLION IN OUTSTANDING PARITY DEBT INCLUDING CURRENT SALES

Municipality
TX

Moody's Rating

ISSUE		RATING
General Obligation and Refunding Bonds, Series 2007		Aa2
Sale Amount	$62,770,000	
Expected Sale Date	06/15/07	
Rating Description	General Obligation Limited Tax	
Combination Tax and Revenue Certificates of Obligation, Series 2007		Aa2
Sale Amount	$14,815,000	
Expected Sale Date	06/18/07	
Rating Description	General Obligation Limited Tax	

Opinion

NEW YORK, Jun 11, 2007 -- Moody's Investors Service has upgraded to Aa2 from Aa3 the rating of the City of Round Rock [TX], affecting $74 million in outstanding parity debt. The rating upgrade reflects a diversifying and sizeable tax base that continues to expand at a healthy pace, a solid financial position marked by conservative fiscal policies, a manageable debt burden, favorable wealth levels, and a strong management team. The rating also considers the City's ongoing reliance on sales tax revenues as a leading source of operating revenues and the considerable importance of a single company -- Dell Computer -- to the local economy. Concurrently, Moody's assigns the Aa2 rating to the sale of $62.8 million General Obligation and Refunding Bonds, Series 2007 and $14.8 million Combination Tax and Revenue Certificates of Obligation, Series 2007. The Bonds and Certificates are direct obligations of the City, payable from the levy and collection of a direct and continuing annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City. The Certificates are further secured by a limited pledge of surplus net revenues of the City's waterworks and sewer system.

HEALTHY TAX BASE GROWTH REFLECTIVE OF CONTINUED RESIDENTIAL DEVELOPMENT AND BURGEONING RETAIL SECTOR

Located approximately eight miles north of Austin (general obligation rating Aa1), the City has experienced substantial population growth over the past three decades. The City's population nearly doubled between 1990 and 2000 (from 30,923 to 61,136). Moreover, since 2000 the City's population has expanded an additional 47% to reach 90,100 in 2007. Officials anticipate healthy population growth will continue over the long term, given that ample land is available for additional residential development. As migration into the City has surged, wealth levels have also swelled. Per capita income improved from 99% of the state median in 1990 to 127% in 2000 while median family income rose from 116% of the state median to 143% during this same time period. Round Rock's rapid growth was also spurred by the burgeoning of Dell Computer (senior unsecured A2), which is headquartered in the City. An estimated 20% of the City's workforce is employed by Dell, officials indicate. Although Dell emerged from a round of layoffs just a few years ago during the Austin area high tech downturn, Moody's indicates that the company's current A2 rating is still reflective of strong financial metrics (see Dell Inc. credit opinion dated June 7, 2006) and a significant market share. In recent years, the City's economy has begun to diversify rapidly as the retail and healthcare industries have blossomed. Consequentially, although Dell remains a significant provider of sales tax revenues and jobs in the City, this diversification represents a key factor for the rating upgrade. On the retail side, several projects have emerged over past several years. La Frontera, a 2 million square foot mixed use development continues to show great success, officials note. The development includes retail shopping, a full service Marriott hotel, office buildings, and a 411 - unit upscale apartment complex. In August 2006, the Round Rock Premium Outlets opened, providing over 430,000 square feet of retail space, one hotel, and a movie theater. Operating results have been strong as the outlet center is a huge tourist draw to the City. In November 2006, Swedish furniture make IKEA opened its third Texas store, a 252,000 square foot destination retail store. The Dell Diamond, home stadium for a minor league baseball team, also continues to be a significant tourist draw. Since inception, officials indicate that game attendance at Dell Diamond has been in the top tier of all minor league baseball teams and ball parks. In the health care sector, the Round Rock Medical Center embarked on a $58 million expansion project in 2006 to double the size of the prior facility to 312,000 square feet. Scott & White will expand its operations by developing an $81 million medical campus which will include a 76 - bed hospital, clinic, and diagnostic center. The facility is expected to open later in 2007. Finally, Seton is expected to open a 150 - bed hospital within the medium term. Given the growth of the City's health care industry and the success of several large retail projects discussed previously, the City's hotel/motel industry continues to be vibrant, officials indicate. In 1996, the City had 2 hotels with a total of 181 rooms. At the end of 2005, 21 hotels with 2,057 rooms were open for business. Aside from retail and health care growth, future progress in the City will also be spurred by two additional factors - substantial transportation improvements and expectations of a burgeoning higher educational sector. Toll way construction and significant road construction in the local area have begun to greatly enhance mobility to, from, and around Round Rock. These projects and future ones are expected to facilitate considerable residential and retail development going forward. In partnership with Texas State University (Aa3 revenue rating), the Round Rock Higher Education Center opened on 101 donated acres in northeast Round Rock. It is anticipated that the new campus will become a full service college and play a significant role in the development of the northeast section of the City over the long term. Additionally, a large local community college may also open up a new campus in the City within the next several years.

Reflective of the City's retail, residential and corporate sector growth, the City's assessed valuation (AV) has expanded at a healthy average annual rate of 7.2% over the past five years. This average annual rate includes the 2% AV decline in FY 2004 and the minimal 0.2% increase in FY 2005, which occurred during the local high tech economic downturn. Recent AV growth has suggested that the City has recovered fully from that downtown. Assessed valuation increased 16% in FY 2006 while growing 10% in FY 2007 to reach $6.4 billion. Preliminary values for FY 2008 reflect an AV of approximately $7.3 billion, which would represent a 14% increase over the prior year. Given the pace of current development and ample land available for additional development in the future, Moody's believes the City's tax base will continue to grow at a healthy pace for the foreseeable future.

SOLID FINANCIAL POSITION MARKED BY AMPLE RESERVE LEVELS AND CONSERVATIVE FISCAL POLICIES

Historically, the City has enjoyed ample levels of General Fund reserves, which has helped mitigate the City's reliance on sales tax revenues as a primary operating revenue source. At FYE 2006, the City's General Fund held $32.5 million or a sizeable 41% of General Fund revenues. Officials indicate that the General Fund will remain relatively constant at FYE 2007. In FY 2006, approximately 60% of General Fund revenues were derived from sales tax revenues. Given the cyclical nature of sales tax revenues, the City's dependence on sales tax revenues has long been a source of concern to Moody's. However, even in the economic downturn of FY 2004 and FY 2005 that plagued the Austin region, the City was able to add to the fund balance in each year, which Moody's believes is reflective of the City's strong management and conservative fiscal practices. Dell Computer has historically been the City's dominant sales tax payer, providing approximately 50% of all General Fund sales tax revenues collected in FY 2006. A tax incentive agreement requires the City to make an annual program payment to Dell equivalent to 31.25% of sales taxes generated by the company. Still, Dell generated sales tax revenues represent a substantial revenue stream. In FY 2006, sales tax revenues (General Fund only) collected from Dell, net of the remittance back to the company, amounted to a sizeable $14.5 million or approximately 18% of General Fund revenues. Recognizing the risk associated with sales tax revenue reliance, the City's management has long budgeted sales tax revenues very conservatively. Additionally, in 2005, the City adopted a policy to reduce the City's budgetary dependence on Dell. According to the policy, Dell generated sales tax revenues utilized for General Fund operations can not exceed more than 50% of the total amount of sales tax revenues received by the City from all sources. In the event that Dell sales tax collections exceed the formal limitation, the excess can be used to finance capital improvements or retire existing general obligation debt. Moody's notes that as the City's retail sector has blossomed, the sales tax revenue mix has become more diversified. Whereas in the past, when sales tax revenue growth was largely dictated by Dell, sales tax revenues now continue to grow solidly despite some year over year declines (as a percentage) at Dell. Thus far in FY 2007, Dell sales tax revenues have declined 8.6% from the prior year. However, sales tax revenues outside of Dell have expanded by approximately 25% during this same time period. The City's financial position is also strengthened by a formal general fund balance policy that stipulates that reserves be equal to at least 33% of budgeted annual operating expenditures. The 33% target would annually yield a high level of reserves, which could be critical to have available in the event that sales tax revenues declined sharply. Additionally, given a relatively moderate total tax rate ($3.7 per $1,000 AV), the City retains the flexibility to raise tax rates in the case of a substantial sales tax revenue drop which further mitigates Moody's concern. Moody's believes the City's historical maintenance of a strong financial position and management's proven ability to guide the City through an economic downturn are key factors considered in the rating upgrade.

ABOVE-AVERAGE DEBT BURDEN, DUE TO ASSERTIVE INFRASTRUCTURE DEVELOPMENT

While continued rapid population growth is expected to place a burden upon the city's infrastructure, Moody's believes that management's demonstrated ability to manage a growing capital plan and the city's strong finances will allow the city to handle its capital needs. Debt burden remains moderately high, 2.7% direct and approximately 6.3% overall, both expressed as percent of taxable value. The high overall burden reflects assertive borrowing by overlapping school districts. Payout is slightly below average, with 46% of principal repaid within ten years. As part of its formal 5 year capital improvement planning process, the City has highlighted a substantial number of projects to be completed going forward. The plan forecasts approximately $123 million in general projects, $423 million in transportation projects, and $207 million utility projects. While bond proceeds will support a sizeable portion of the planned capital projects, a significant portion will also be funded with the City's own financial reserves, by the 4B ½% sales tax revenue stream, and utility fees. The City has historically utilized these type of non-debt revenues sources to support its capital program and limit the need to issue additional debt, which has allowed for the City's debt burdens (while high) to remain manageable.

KEY STATISTICS

2007 population (estimate): 90,100

2000 Census Per Capita Income: $24,911 or 127% of the state median

FY 2007 Full Valuation: $6.4 billion

Full Value per Capita: $70,554

Direct debt burden: 2.7%

Overall debt burden: 6.3%

Payout of principal (10 years): 46%

FY06 General Fund balance: $32.5 million (40.8% of General Fund revenues)

Post Sale Parity Debt Outstanding: $151.7 million

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